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## Next Steps on the Levelisation Phase 1 Review

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Publication date:	12 December 2024
Response deadline:	6 February 2025
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We are consulting on our proposed scope and evaluation framework for reviewing the impact and operation of levelisation Phase 1 which adjusted standing charges for pre-payment meter and direct debit consumers. This consultation is published alongside a draft Request for Information.

We would encourage any stakeholders with an interest in levelisation Phase 1 to respond to the questions set out in this publication by **6 February 2025**.

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## Background

In February 2024, we published our decision to 'levelise' standing charges between prepayment meter (PPM) and Direct Debit (DD) customers by adjusting the nil consumption price cap level for PPM and DD customers from April 2024 ('Decision').<sup>1</sup> This was supported by a reconciliation by difference mechanism to ensure current and future supplier stability, market diversity, and that competition was not negatively affected by the introduction of the levelisation allowance in the price cap.

In our Decision, we committed to reviewing the impact and operation of levelisation Phase 1<sup>2</sup> to ensure our approach continues to be in the best interests of consumers ('Review'). We are now setting out the proposed scope and evaluation framework for the Review, and seeking feedback on it. We are also seeking feedback on a draft Request for Information (RfI), which sets out the information we plan to gather from suppliers to support our Review.

## Proposed Scope

For the purpose of the Review, we consider the primary and secondary policy aims set out in the Decision to be in scope.

### Primary Aim

- **Customers that pay by PPM should not pay a premium.** This aim ensures PPM customers should not typically pay a premium compared to other payment methods. In practice, this means removing the premium on the standing charge. This would help to realise the benefits case outlined in the Impact Assessment (IA) set out in the Decision and to mitigate the unintended harms associated with higher standing charges for PPM customers.

### Secondary Aims

- **Levelisation should be responsive to policy changes and be in the best interest of consumers.** This aim looks to ensure that levelisation Phase 1 is adaptable, responsive, and compatible with policy developments and interlinking reviews being undertaken by Ofgem. This would seek to achieve the benefits

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<sup>1</sup> Ofgem (23 February 2024) - Decision on adjusting standing charges for prepayment customers - [Decision on adjusting standing charges for Prepayment customers](#)

<sup>2</sup> 'Phase 1' refers to the 'levelisation' of standing charges between PPM and DD customers by adjusting the nil consumption price cap level from April 2024.

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outlined within the IA whilst ensuring levelisation Phase 1 remains in the best interest of present and future consumers.

- **There should be no gap in support for PPM customers following EPG removal.** This aim works alongside the primary aim, by introducing levelisation Phase 1 to align with the removal of the EPG scheme, which was funded by Government. This seeks to remove the risk of a PPM premium.
- **The solution should be proportionate.** This aim looks to ensure that levelisation Phase 1 is proportionate, by considering our statutory objectives including our frameworks and the cost and societal impact measures used within the IA. Our approach seeks to use these measures to determine a proportionate solution, which provides overall benefit to customers and mitigates the risk of unintended consequences set out within the case for change. This aim also seeks to minimise the administration costs of a solution with the minimum level of intervention required to achieve the desired outcome.

## **Proposed Evaluation Framework**

We are seeking to structure our approach to the Review around the key policy aims of levelisation as set out above, and to map out the success criteria, risks, suitability, and assumptions in line with the findings of our IA in the February 2024 Decision and case for change. We are also planning to draw on information such as consumer data from previous and future Consumer Impacts of Market Conditions Survey (CIM) surveys, data from our RfI from suppliers, price cap data, and information on the costs of reconciliation from suppliers and RECCO.

Ofgem has recently consulted on our proposed Economic Evaluation Strategy - a new strategy and framework for ex-post evaluations.<sup>3</sup> This framework has informed how we are considering reviewing the impact and operation of levelisation Phase 1 in its first year of implementation.

The following tables set out our key evaluation questions and framework for the Review:

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<sup>3</sup> Ofgem (23 October 2024) - The Development of an Economic Evaluation Strategy - [The development of an Economic Evaluation Strategy](#)

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**Table 1: Policy Aim and Evaluation Questions**

<b>Policy Aim</b>	<b>Evaluation Question</b>
Customers that pay by PPM should not pay a premium.	Are customers on PPM paying lower standing charges than those on DD following Phase 1 implementation?
Levelisation should be responsive to policy changes and be in the best interest of consumers.	Is levelisation Phase 1 compatible with policy released since delivery? Have policies released since delivery eroded the benefits of levelisation Phase 1? Taking these factors into account, does levelisation Phase 1 still provide a net benefit to consumers?
There should be no gap in support for PPM customers following EPG removal.	Has levelisation Phase 1 been implemented concurrently with the end of EPG?
The solution should be proportionate.	Do the benefits of levelisation Phase 1 exceed the costs?

**Table 2: Metrics to measure success or failure**

Policy Aim	Evaluation Outcome
Customers that pay by PPM should not pay a premium.	1A: Does the price cap for PPM customers remain below the DD and Standard Credit (SC) price cap?
Levelisation should be responsive to policy changes and be in the best interest of consumers.	2A: Following any policy changes and changes to the price cap, do we continue to see a positive benefits case for levelisation Phase 1? (particularly income-weighted benefit, along with other factors identified in the IA)  2B: Does there remain a case for change for levelisation Phase 1?
There should be no gap in support for PPM customers following EPG removal.	3A: Was levelisation Phase 1 implemented by 1 April 2024 to coincide with the end of EPG?
The solution should be proportionate.	4A: Were the expected annual benefits of levelisation Phase 1 realised in the first year? (particularly debt, bad debt, and working capital along with other factors identified in the IA)  4B: Were the costs of levelisation Phase 1 in line with expectations in the first year?  4C: Were there any detrimental impacts because of levelisation Phase 1 on competition? (particularly the FTC market)  4D: Were there unexpected positive or negative consequences because of levelisation Phase 1?

**Table 3: How we will evaluate outcomes**

Policy Aim	Evaluation Approach
Customers that pay by PPM should not pay a premium.	1A: Comparison of price caps for PPM, DD and SC customers at the end of the first year of levelisation
Levelisation should be responsive to policy changes and be in the best interest of consumers.	<p>2A: We will re-run our analysis models from the Phase 1 Decision based on the most up to date price cap information. This will allow us to capture any policy decisions implemented since the implementation date and ensure there continues to be a positive benefits case, as highlighted in the IA, for levelisation Phase 1 going forwards.</p> <p>2B: We will review the assumptions made in our IA and utilise the most recent data and information on PPM customers to evaluate whether there remains a case for levelisation Phase 1.</p> <p>We will use the information to assess whether there are still customers on PPM that did not actively choose the payment method and whether these customers continue to exhibit higher levels of vulnerabilities compared to the wider population.</p>
There should be no gap in support for PPM customers following EPG removal.	3A: N/A
The solution should be proportionate.	<p>4A: We will re-run our analysis models for Phase 1 based on outturn data for the first year of levelisation Phase 1. This will allow us to evaluate whether the expected benefits set out in our decision IA have been realised.</p> <p>4B: We will collect information from relevant industry participants on the costs of levelisation. We will use this information to evaluate whether outturn costs met our estimates set out in the decision.</p> <p>4C: We will collect information from relevant industry participants on whether the risks to the FTC market set out in the decision IA have materialised.</p> <p>4D: We will collect information from relevant industry participants on whether any unexpected positive or negative consequences have materialised.</p>



## **Request for Information (RfI)**

We are proposing to gather data from April 2024 to March 2025 to allow for 12 months' worth of data collection and a thorough assessment of the impact of levelisation Phase 1. This information will enable us to carry out an analysis to specifically examine the potential cost and competition impacts of the policy from implementation to the end of the first year of implementation. We may cross-reference returns with previous, different RfIs, to ensure data consistency and accuracy.

We are seeking views on the draft RfI published alongside this open letter. It covers questions in three areas:

- administration costs;
- fixed tariffs; and
- supplier experiences of the reconciliation mechanism

### **Administration Costs**

Our IA estimated that supplier costs would increase due to the cost of the administering the reconciliation mechanism which underpins levelisation Phase 1. We anticipated the costs of implementing and operating the reconciliation mechanism would be minimal compared to the net consumer benefits of levelisation Phase 1.

In our RfI, we intend to gather further information on supplier administrative costs to assess the actual costs of implementation and operation of the reconciliation mechanism against our estimates.

### **Fixed Tariffs**

During the statutory consultation for the Decision, some stakeholders raised the concern that inclusion of Fixed Term DD tariffs within reconciliation could lead to uncertainty or variability which will manifest as an uplift in fixed tariff prices to account for this (hereby referred to as a "risk premium").

Our IA investigated the potential uncertainty for fixed tariffs by using variation in the levelisation allowances for DD customers across several cap periods. We anticipated any "risk premiums" applied to DD fixed tariffs would be relatively small and not market distorting. We will consider this further as part of the Review.

Overall, we are proposing to gather information on fixed tariff pricing generally, as well as how (if at all) uncertainty is accounted for in pricing. We are assessing the actual impacts of the policy on market competition.

## **Supplier Experiences of the Reconciliation Mechanism**

Levelisation of PPM and DD standing charges relies upon a reconciliation mechanism to mitigate against competition concerns and to ensure current and future supplier stability, particularly for PPM and specialist suppliers.

In this RfI, we are proposing to collect data on suppliers' experience of the reconciliation mechanism and views regarding both the positive and negative aspects of the current system.

## **Questions for Stakeholders**

**Q1.** Do you have any comments on our approach or scope to evaluating the impact and operation of levelisation Phase 1?

**Q2.** Do you have any comments on the metrics used to measure the success or failure of levelisation Phase 1?

**Q3.** Do you have any comments on how we propose to evaluate outcomes?

**Q4.** Do you have any comments on the draft RfI?

## **Next Steps**

We welcome views and comments on the questions outlined by close of business on **6 February 2025**. Please provide responses by email to [standingcharges@ofgem.gov.uk](mailto:standingcharges@ofgem.gov.uk).

Subject to review and consultation, we intend to publish our finalised evaluation framework and issue the RfI in April/May 2025. We then intend to conduct our review and publish our decision in Autumn 2025.

If you have any queries about this request, please email [standingcharges@ofgem.gov.uk](mailto:standingcharges@ofgem.gov.uk).